

Message Text

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ACTION EB-07

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FM AMEMBASSY MONROVIA

TO SECSTATE WASHDC PRIORITY 5469

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E.O. 11652: N/A

TAGS: EINV, ENRG, LI

SUBJECT: LIBERIA REFINING COMPANY

REF: STATE 154010

1. AMBASSADOR SUBMITTED QUESTIONS IN REFTEL TO FINANCE MINISTER PHILLIPS. ANSWERS HE PROVIDED ARE KEYED TO QUESTIONS LISTED IN PARA 4 OF REFTEL. APPROPRIATE EMBASSY COMMENTS ARE INCLUDED WHEN CONSIDERED APPROPRIATE.

A. QUOTE GOVERNMENT HAD THE OPPORTUNITY TO APPROVE OR DISAPPROVE THE DEBT/EQUITY RATIO OF LRC. GOVERNMENT HAS NEVER FORCED CAPITALIZATION OF LRC AND IS UNAWARE OF ANY FORCED CAPITALIZATION. HOWEVER, IN 1974 GOVERNMENT AND LRC, AFTER NEGOTIATIONS, MUTUALLY AGREED TO INCREASE THE EQUITY CAPITAL FROM \$153,000 TO \$5 MILLION. UNQUOTE.

COMMENT: NO MENTION IS MADE OF DEBT/EQUITY RATIO IN CONCESSION AGREEMENT. ONLY AFTER FEW YEARS OF REFINERY OPERATION DID GOL EXPRESS DISSATISFACTION WITH DEBT/EQUITY RATIO. IN LATE 1973 WHEN PRICING FORMULA WAS UNDER NEGOTIATION, GOL SUCCEEDED IN HAVING INVESTORS AGREE TO INCREASE EQUITY CAPITAL AS PART OF PACKAGE DEAL.

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B. QUOTE THE FOLLOWING COMPARATIVE BALANCES HAVE BEEN DRAWN FROM LRC'S AUDITED BALANCE SHEETS IN 1970 AND 1976.

MILLIONS OF DOLLARS

1970 0976 DIFFERENCE

ACCUMULATED LOSSES	4.1	3.5	0.6
LOAN CAPITAL	22.0	14.2	5.8
FIXED ASSETS COST	17.7	18.8	1.1
DEPRECIATION	1.7	8.4	6.7

THUS IT IS EVIDENT THAT A PROFIT OF \$0.6 MILLION AND DEPRECIATION WRITE-OFFS OF \$6.7 MILLION ARE MORE THAN AMPLE TO FINANCE FIXED ASSETS ADDITIONS OF \$1.1 MILLION, INCLUDING EXPANSIONS FOR ADDITIONAL CAPACITY. UNQUOTE.

NO COMMENT.

C. QUOTE LONG TERM DEBT DUE TO SUN AND DYNALECTRON PER THE DECEMBER 1976 AUDITED FINANCIAL STATEMENT IS \$11.4 MILLION AND \$2.1 MILLION RESPECTIVELY. GOVERNMENT'S OFFER OF \$1.5 MILLION FOR PHYSICAL PLANT EXCLUDED INVENTORY OF CRUDE OIL, PETROLEUM PRODUCT AND SPARES WHICH WAS TO FORM A SEPARATE OFFER AS OF DATE OF ACQUISITION OF PHYSICAL PLANT. THE OFFER DID NOT INCLUDE SHAREHOLDERS DEBT OR EQUITY CAPITAL. UNQUOTE.

NO COMMENT.

D. QUOTE LRC WAS INFORMED OF GOVERNMENT'S INTENTION TO CONDUCT A TECHNICAL SURVEY AND RAISED NO OBJECTIONS. LRC HAD THE LIMITED OFFICIAL USE

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OPPORTUNITY TO COMMENT ON CHOICE OF FIRM. LRC DID NOT OBJECT TO THE CONSULTANT SELECTED BY GOVERNMENT AND PROVIDED GOOD COOPERATION DURING THE TECHNICAL SURVEY. UNQUOTE.

COMMENT: ACCORDING TO HEAD GOL CONSULTANT FIRM, SUN DID HAVE OPPORTUNITY TO SUGGEST NAMES OF SEVERAL U.S. FIRMS AS CONSULTANTS. SUN MANAGER SAID THAT BRITISH FIRM WAS SELECTED BECAUSE HE THOUGHT GOL WAS AFRAID U.S. FIRM MIGHT BE BIASED TOWARD SUN.

E. QUOTE NO DISCUSSIONS WERE HELD REGARDING PRICE RANGE. UNQUOTE.

NO COMMENT.

2. GOL HAS ALSO SUPPLIED COMMENTS REQUESTED IN PARA 5 OF REFTEL AS FOLLOWS:

A. QUOTE AS OF MAY 12, 1977, SUN AND DYNALECTRON INFORMED GOL THAT THEY WERE REMOVING THEMSELVES FROM ALL ASPECTS OF LRC'S OPERATIONS AND THEY WERE SEVERING ALL TIES AND OBLIGATIONS WITH LRC EXCEPT FOR THE RIGHT TO COLLECT CONTRACTUAL PAYMENTS.

SINCE THEN THE REFINERY HAS BEEN RUN BY A MANAGEMENT COMMITTEE OF SENIOR LRC EMPLOYEES.
THE REPAIRS HAVE NOT BEEN COMPLETED AND WILL REQUIRE ANOTHER TWO TO FOUR MONTHS ASSUMING ADEQUATELY QUALIFIED STAFF ARE STILL AVAILABLE. THE TWO MOST SENIOR EXPATRIATE STAFF WHO WERE AUTHORIZED TO SIGN CHECKS ON BEHALF OF LRC HAVE RESIGNED. ONE OF THE ABOVE SIGNATORIES HAS ALREADY LEFT LIBERIA AND THE OTHER WILL BE LEAVING BY JULY 21, 1977. THE DEPARTURE OF THESE SIGNATORIES WILL RENDER LRC INOPERATIVE.

B. QUOTE GOVERNMENT IS STILL PURCHASING PRODUCT CARGOES WHICH, BY AGREEMENT BETWEEN GOVERNMENT AND LRC, ARE STORED AND DISTRIBUTED BY LRC FOR CHARGE OF 4 CENTS PER GALLON. ONLY LIMITED OFFICIAL USE

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LAMCO AND, TO A LESSER EXTENT, BONG ARE MAKING THEIR OWN ARRANGEMENTS FOR FUEL SUPPLIES.

C. QUOTE THERE ARE NO LIBERIAN LAWS OR REGULATIONS AFFECTING DISPOSITION OF EQUITY OR ASSETS SHOULD LRC NOT MEET CONCESSION REQUIREMENT CONCERNING LIBERIA'S SUPPLIES.

D. QUOTE GOVERNMENT HAS INDICATED ITS WILLINGNESS, IN A LETTER DATED JUNE 22, 1977, TO DISCUSS MUTUALLY ACCEPTABLE TERMS WITH RESPECT TO PURCHASING OF THE PHYSICAL PLANT OF THE REFINERY. UNQUOTE.

COMMENT: GOL'S INSISTENCE TO DATE THAT SUN/DYNALECTRON MAKE PUBLIC RETRACTION OF ALLEGED EXPROPRIATION CLAIM OF LRC AND U.S. FIRMS' REFUSAL TO DO SO APPEARS TO BE A FACTOR IN RESUMPTION OF NEGOTIATIONS.
CARTER

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